Estate of Georgia Lee Merwin, Deceased, Darrell Merwin, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 95 T. C. 168 (1990)

An estate must strictly comply with the regulations for electing special use valuation under Section 2032A, including timely filing a recapture agreement.

Summary

The Estate of Georgia Lee Merwin sought to elect special use valuation for estate tax purposes under Section 2032A but failed to attach the required recapture agreement to the timely filed estate tax return. The court held that the estate did not substantially comply with the regulations, as the omission of the recapture agreement was critical. Furthermore, the court clarified that the Tax Reform Act of 1986 did not relieve the estate from the requirement to attach a recapture agreement when the return form explicitly referenced such an agreement. The case underscores the importance of strict compliance with the procedural requirements for electing special use valuation.

Facts

Georgia Lee Merwin died on October 18, 1984, and her estate timely filed a Federal estate tax return on July 16, 1985, using the March 1985 version of Form 706. The estate marked the "yes" box for electing special use valuation under Section 2032A. However, the estate did not attach a notice of election or a recapture agreement as required by the regulations and the instructions to Schedule of Form 706. The estate's Schedule listed the special use values for the real property but did not include the fair market values or other required information. The IRS notified the estate that it did not qualify for special use valuation due to the missing recapture agreement.

Procedural History

The estate timely filed its Federal estate tax return on July 16, 1985. After an audit, the IRS issued a notice of deficiency on June 20, 1988, denying the estate's election for special use valuation due to the absence of a recapture agreement. The estate appealed to the United States Tax Court, which held that the estate did not substantially comply with the regulations and was not eligible for relief under the Tax Reform Act of 1986.

Issue(s)

1. Whether the estate substantially complied with the regulations under Section 2032A(d)(3) by omitting the recapture agreement from the estate tax return.
2. Whether the estate provided substantially all the required information under Section 1421 of the Tax Reform Act of 1986, despite the omission of the recapture agreement.

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Holding

1. No, because the estate did not substantially comply with the regulations under Section 2032A(d)(3) by failing to attach the recapture agreement, which is a critical component of the election.
2. No, because the estate did not provide substantially all the required information under Section 1421 of the Tax Reform Act of 1986, as the face of Form 706 explicitly referenced the need for a recapture agreement, and the estate failed to include fair market values and other required data.

Court's Reasoning

The court applied the strict compliance standard required for electing special use valuation under Section 2032A. The regulations under Section 20. 2032A-8(a)(3) mandate the attachment of both a notice of election and a recapture agreement to the estate tax return. The court found that the estate's failure to attach the recapture agreement precluded substantial compliance with the regulations, citing cases like *Prussner v. United States*. The court rejected the estate's argument that California law could substitute for the recapture agreement, emphasizing that Federal law governs the election process. Regarding Section 1421 of the Tax Reform Act of 1986, the court interpreted "information" to include the recapture agreement when the face of Form 706 referenced it, and noted that the estate also omitted other required data such as fair market values.

Practical Implications

This decision reinforces the necessity of strict compliance with the procedural requirements for electing special use valuation under Section 2032A. Attorneys must ensure that all required documents, including the recapture agreement, are attached to the estate tax return when the form references them. The case also clarifies that the Tax Reform Act of 1986 does not provide relief from these requirements when the estate tax return form clearly indicates the need for a recapture agreement. Future cases involving special use valuation elections will likely be analyzed with a focus on strict adherence to the regulations. This decision may prompt estates to be more diligent in preparing and reviewing their estate tax returns to avoid similar pitfalls.

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